

## Liability for Compensated Absences in Governmental Funds

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Governmental Accounting Standards Board (GASB) Interpretation No. 6 clarified the applications of standards for modified accrual recognition of certain liabilities and expenditures, which included compensated absences. This procedure has been updated to reflect Interpretation No. 6. LEAs should implement this guidance simultaneously with their implementation of GASB Statement 34.

This procedure provides guidance in the accounting and reporting of the liability for compensated absences. Compensated absences include vacation leave benefits earned but not yet taken by employees, sabbatical leave, and those accumulated unused sick days that will be paid to employees upon their termination or retirement. In most LEAs, sick leave days typically are not included as a liability since they are not normally paid as termination benefits.

Generally accepted accounting principles require school districts and county offices of education to report the full liability for compensated absences as they are earned by employees. The calculation of the liability should include certain payments associated with payment for compensated absences, such as the employer's share of Social Security, Medicare taxes, PERS, State unemployment insurance, and workers' compensation.

Expenditures for compensated absences are recognized in the governmental funds only when they come due for payment in each period. There is no distinction made between the current and long-term portions of the liability for compensated absences. This means amounts expected to be paid within the next fiscal year should not be recognized, only the amounts that have actually become due and payable as of the end of the fiscal year because relevant events have occurred, such as employee resignations and retirements. The unmatured portion (the portion that has not yet come due for payment) of the liability for compensated absences is recognized as long-term debt in the government-wide statement of net assets.

